

**S.E.C. RULE 15c2-12
ANNUAL REPORT
FISCAL YEAR ENDED JUNE 30, 1999**

The State of California (the "State"), acting by and through the State Treasurer's Office of the State of California, hereby provides its annual report for the fiscal year ended June 30, 1999 in connection with the following:

Bond Issue

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
California State University Headquarters Building Authority Lease Revenue Bonds, Series B	9/1/97	10/9/97

The base CUSIP number for the bond listed above is 13077K - _ _ _.

Note: The base CUSIP number provided is for the convenience of Bondholders. The State Treasurer's Office is not responsible for the accuracy or completeness of such numbers.

Annual Report

The State's "annual report" (as defined in the Continuing Disclosure Agreement for the Bonds) for the fiscal year ended June 30, 1999 consists of:

1. Financial information (including the audited General Purpose Financial Statements for the State) contained in Appendix A of the Official Statement, dated February 23, 2000, with respect to \$500,000,000 of State of California General Obligation Bonds (the "OS"), which information is incorporated herein by reference. A copy of the OS has previously been filed with each of the Nationally Recognized Municipal Securities Information Repositories and is available from any of them.
2. All phases of the project have been completed.

3. [Audited financial statements of the Trustees. This information is provided in Exhibit 1 attached hereto.](#)
4. Information concerning the outstanding long-term indebtedness of the Trustees. This information is provided in the table in Exhibit 2 attached hereto.
5. In addition, as a part of the annual report, the Trustees confirm that the insurance required by Section 8 of the Sublease relating to the Bonds is in effect.

Other Matters

This annual report is provided solely for purposes of the Continuing Disclosure Agreement. The filing of this report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the State or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the fiscal year to which this report relates (other than as referred to in this report), or that no other information exists, which may have a bearing on the State's financial condition, the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds. The information contained in this report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this annual report should be construed as a prediction or representation about future financial performance of the State.

Dated: March 17, 2000

State of California

By Barbara A. Lloyd
 Deputy State Treasurer

Exhibit 2

The California State University
Statement of Revenue Bonded Indebtedness
As of March 1, 2000

<u>Bond Issue</u>	<u>Outstanding Amount</u>
Headquarters Building Authority Revenue Bonds	30,680,000
Housing System Revenue Bonds ⁽¹⁾	259,598,000
Student Union Revenue Bonds:	
Bakersfield	1,620,000
Chico	23,675,000
Dominguez Hills	2,445,000
Fresno	4,620,000
Fullerton	9,480,000
Hayward	1,180,000
Humboldt	150,000
Long Beach	12,750,000
Los Angeles	6,295,000
Northridge	14,500,000
Pomona	2,065,000
Sacramento	22,380,000
San Bernardino	2,885,000
San Diego	31,970,000
San Francisco	14,200,000
San Jose	21,960,000
San Luis Obispo	5,485,000
Sonoma	175,000
Stanislaus	890,000
Parking System Revenue Bonds	
San Diego	13,100,000
Total Revenue Bonds Outstanding	482,103,000
 State Public Works Board Lease Revenue	714,320,000
CSU Institute/CSU Deferred Maintenance	35,220,000
San Bernardino Continuing Education Building	1,405,000
	750,945,000
 Total CSU Long Term Debt	1,233,048,000

⁽¹⁾ In prior years, the California State University Housing System defeased certain bonds by placing the net proceeds of the refunding bonds in an irrevocable trust with the State Treasurer. The net proceeds of these refundings are invested by the Treasurer in U.S. Securities until the prior bonds are redeemed. The above noted amount does not include the prior bonds which currently are secured only by the net proceeds of the refunding bonds on deposit with the Treasurer.

CALIFORNIA STATE UNIVERSITY

Combined Financial Statements

June 30, 1999

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY

Table of Contents

	Page
Independent Auditors' Report	1
Combined Balance Sheet	3
Combined Statement of Changes in Fund Balances and Net Assets	4
Combined Statement of Current Funds Revenues, Expenditures and Other Changes	5
Notes to Combined Financial Statements	6
Report on Required Supplementary Information	24
Required Supplementary Information	25

Independent Auditors' Report

The Board of Trustees
California State University:

We have audited the accompanying combined balance sheet of the California State University as of June 30, 1999 and the related combined statements of changes in fund balances and net assets and current funds revenues, expenditures and other changes for the year then ended. These combined financial statements are the responsibility of the California State University's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the financial statements of 65 of the 75 discretely presented auxiliary organizations, which statements reflect total assets constituting 86% and total revenues and other additions constituting 89% of the discretely presented totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the 65 discretely presented auxiliary organizations, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the California State University as of June 30, 1999 and the changes in fund balances and net assets and current funds revenues, expenditures and other changes for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 1999 on our consideration of the California State University's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

KPMG LLP

Orange County, California
November 24, 1999

CALIFORNIA STATE UNIVERSITY

Combined Balance Sheet

June 30, 1999

Assets	Current funds		Loan funds	Endowment funds	Agency funds	Plant funds	University (memorandum only)	Auxiliary organizations	Total reporting entity (memorandum only)
	Unrestricted	Restricted							
Cash and cash equivalents	\$ 118,788,000	6,640,000	2,514,000	140,000	4,410,000	7,647,000	140,139,000	177,039,000	317,178,000
Pledges receivable, net	—	—	—	—	—	—	—	39,874,000	39,874,000
Accounts receivable, net	256,317,000	17,874,000	117,513,000	139,000	996,000	323,624,000	716,463,000	127,653,000	844,116,000
Investments	534,128,000	39,317,000	11,563,000	18,308,000	15,466,000	218,217,000	836,999,000	614,248,000	1,451,247,000
Due from other funds	27,642,000	94,000	324,000	24,000	344,000	237,000	28,665,000	12,840,000	41,505,000
Prepaid expenses and other assets	25,259,000	47,000	33,000	18,000	3,000	50,000	25,410,000	69,453,000	94,863,000
Property, plant and equipment, net	—	—	—	—	—	5,338,237,000	5,338,237,000	253,208,000	5,591,445,000
Total assets	\$ 962,134,000	63,972,000	131,947,000	18,629,000	21,219,000	5,888,012,000	7,085,913,000	1,294,315,000	8,380,228,000
Liabilities, Fund Balances and Net Assets									
Liabilities:									
Accounts payable	\$ 117,679,000	9,718,000	839,000	2,000	833,000	24,431,000	153,502,000	69,308,000	222,810,000
Accrued salaries and benefits payable	162,109,000	304,000	—	—	—	—	162,413,000	21,274,000	183,687,000
Due to other funds	1,179,000	10,951,000	1,851,000	125,000	1,544,000	13,015,000	28,665,000	12,840,000	41,505,000
Deferred revenues	80,246,000	328,000	—	—	10,000	—	80,584,000	21,680,000	102,264,000
Accrued compensated absences	116,728,000	195,000	—	—	—	—	116,923,000	9,609,000	126,532,000
Capitalized lease obligations	—	—	—	—	—	852,173,000	852,173,000	3,430,000	855,603,000
Long-term debt obligations	—	—	—	—	—	623,003,000	623,003,000	158,123,000	781,126,000
Self-insurance claims liability	72,123,000	—	—	—	—	—	72,123,000	29,929,000	102,052,000
Depository accounts	—	—	—	—	16,739,000	—	16,739,000	40,917,000	57,656,000
Other liabilities	13,711,000	1,538,000	151,000	3,000	2,093,000	10,129,000	27,625,000	119,662,000	147,287,000
Total liabilities	563,775,000	23,034,000	2,841,000	130,000	21,219,000	1,522,751,000	2,133,750,000	486,772,000	2,620,522,000
Fund balances and net assets:									
Fund balances:									
Unrestricted – designated	398,359,000	—	—	—	—	—	398,359,000	22,101,000	420,460,000
Unrestricted – undesignated	—	—	—	—	—	—	—	21,198,000	21,198,000
Restricted	—	40,938,000	129,106,000	18,499,000	—	—	188,543,000	64,467,000	253,010,000
Unexpended plant, restricted	—	—	—	—	—	323,538,000	323,538,000	—	323,538,000
Net investment in plant	—	—	—	—	—	4,041,723,000	4,041,723,000	20,488,000	4,062,211,000
Total fund balances	398,359,000	40,938,000	129,106,000	18,499,000	—	4,365,261,000	4,952,163,000	128,254,000	5,080,417,000
Net assets:									
Unrestricted	—	—	—	—	—	—	—	312,687,000	312,687,000
Temporarily restricted	—	—	—	—	—	—	—	192,626,000	192,626,000
Permanently restricted	—	—	—	—	—	—	—	173,976,000	173,976,000
Total net assets	—	—	—	—	—	—	—	679,289,000	679,289,000
Total fund balances and net assets	398,359,000	40,938,000	129,106,000	18,499,000	—	4,365,261,000	4,952,163,000	807,543,000	5,759,706,000
Total liabilities, fund balances and net assets	\$ 962,134,000	63,972,000	131,947,000	18,629,000	21,219,000	5,888,012,000	7,085,913,000	1,294,315,000	8,380,228,000

See accompanying notes to combined financial statements.

CALIFORNIA STATE UNIVERSITY

Combined Statement of Changes in Fund Balances and Net Assets

Year ended June 30, 1999

	Current funds		Loan funds	Endowment funds	Plant funds	University (memorandum only)	Auxiliary Organizations	Total reporting entity (memorandum only)
	Unrestricted	Restricted						
Revenues and other additions:								
State appropriations	\$ 2,167,914,000	—	—	—	205,393,000	2,373,307,000	—	2,373,307,000
Fees and tuition	820,497,000	763,000	17,000	—	—	821,277,000	77,751,000	899,028,000
Investment income	21,611,000	2,109,000	2,077,000	—	12,761,000	38,558,000	43,360,000	81,918,000
Endowment income	54,000	759,000	24,000	62,000	—	899,000	13,092,000	13,991,000
Federal grants and contracts	1,632,000	304,261,000	10,135,000	—	—	316,028,000	192,644,000	508,672,000
State grants and contracts	7,639,000	62,014,000	19,000	—	59,798,000	129,470,000	76,352,000	205,822,000
Private gifts, grants, and contracts	12,121,000	16,632,000	131,000	1,229,000	17,361,000	47,474,000	152,404,000	199,878,000
Sales and service of educational activities	34,761,000	442,000	—	—	—	35,203,000	21,303,000	56,506,000
Sales and service of auxiliary enterprises	154,182,000	—	—	—	—	154,182,000	348,736,000	502,918,000
Expended for plant facilities (including current funds of \$119,688,000)	—	—	—	—	454,733,000	454,733,000	—	454,733,000
Retirement of indebtedness	—	—	—	—	60,300,000	60,300,000	—	60,300,000
Other	51,335,000	5,928,000	1,606,000	2,000	9,329,000	68,200,000	59,029,000	127,229,000
Total revenues and other additions	3,271,746,000	392,908,000	14,009,000	1,293,000	819,675,000	4,499,631,000	984,671,000	5,484,302,000
Expenditures and other deductions:								
Educational and general:								
Instruction	1,327,199,000	6,766,000	—	—	—	1,333,965,000	128,866,000	1,462,831,000
Research	1,148,000	19,651,000	—	—	—	20,799,000	99,094,000	119,893,000
Public service	14,085,000	10,589,000	—	—	—	24,674,000	80,503,000	105,177,000
Academic support	394,866,000	3,676,000	—	—	—	398,542,000	38,163,000	436,705,000
Student services	303,675,000	6,312,000	8,570,000	—	—	318,557,000	46,642,000	365,199,000
Institutional support	449,647,000	3,429,000	—	—	—	453,076,000	75,314,000	528,390,000
Operation and maintenance of plant	244,643,000	3,700,000	—	—	2,000	248,345,000	16,409,000	264,754,000
Student grants and scholarships	144,803,000	306,599,000	1,523,000	—	—	452,925,000	20,223,000	473,148,000
Total educational and general expenditures	2,880,066,000	360,722,000	10,093,000	—	2,000	3,250,883,000	505,214,000	3,756,097,000
Other expenditures:								
Auxiliary enterprise expenditures	129,310,000	—	—	—	—	129,310,000	363,883,000	493,193,000
Loan cancellations and write-offs	—	—	2,950,000	—	—	2,950,000	—	2,950,000
Expended for plant facilities (including noncapitalized of \$69,724,000)	—	—	—	—	404,769,000	404,769,000	7,027,000	411,796,000
Retirement of indebtedness	—	—	—	—	60,300,000	60,300,000	—	60,300,000
Interest on indebtedness	—	—	—	—	73,772,000	73,772,000	7,260,000	81,032,000
Disposal of plant facilities	—	—	—	—	39,884,000	39,884,000	318,000	40,202,000
Other	—	—	538,000	9,000	14,003,000	14,550,000	16,576,000	31,126,000
Total other expenditures	129,310,000	—	3,488,000	9,000	592,728,000	725,535,000	395,064,000	1,120,599,000
Total expenditures and other deductions	3,009,376,000	360,722,000	13,581,000	9,000	592,730,000	3,976,418,000	900,278,000	4,876,696,000
Transfers among funds – additions (deductions):								
Mandatory transfers:								
Federal program matching	(4,587,000)	4,257,000	330,000	—	—	—	—	—
Principal and interest	(31,612,000)	—	—	—	31,612,000	—	—	—
Payments on capital lease obligations	(87,631,000)	—	—	—	87,631,000	—	—	—
Nonmandatory transfers:								
Other	13,207,000	(46,342,000)	(523,000)	(45,000)	33,703,000	—	—	—
Total transfers	(110,623,000)	(42,085,000)	(193,000)	(45,000)	152,946,000	—	—	—
Net increase (decrease) in fund balances/net assets	151,747,000	(9,899,000)	235,000	1,239,000	379,891,000	523,213,000	84,393,000	607,606,000
Fund balance and net assets at beginning of year, as restated	246,612,000	50,837,000	128,871,000	17,260,000	3,985,370,000	4,428,950,000	723,150,000	5,152,100,000
Fund balance and net assets at end of year	\$ 398,359,000	40,938,000	129,106,000	18,499,000	4,365,261,000	4,952,163,000	807,543,000	5,759,706,000

See accompanying notes to combined financial statements.

CALIFORNIA STATE UNIVERSITY

Combined Statement of Current Funds Revenues, Expenditures and Other Changes

Year ended June 30, 1999

	Current Funds		Total
	Unrestricted	Restricted	(memorandum only)
Revenues:			
State appropriations	\$ 2,167,914,000	—	2,167,914,000
Fees and tuition	820,497,000	763,000	821,260,000
Investment income	21,611,000	2,118,000	23,729,000
Endowment income	54,000	664,000	718,000
Federal grants and contracts	1,632,000	314,962,000	316,594,000
State grants and contracts	7,639,000	62,020,000	69,659,000
Private gifts, grants, and contracts	12,121,000	16,172,000	28,293,000
Sales and service of educational activities	34,761,000	442,000	35,203,000
Sales and service of auxiliary enterprises	154,182,000	—	154,182,000
Other	51,335,000	5,666,000	57,001,000
Total current revenues	<u>3,271,746,000</u>	<u>402,807,000</u>	<u>3,674,553,000</u>
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	1,327,199,000	6,766,000	1,333,965,000
Research	1,148,000	19,651,000	20,799,000
Public service	14,085,000	10,589,000	24,674,000
Academic support	394,866,000	3,676,000	398,542,000
Student services	303,675,000	6,312,000	309,987,000
Institutional support	449,647,000	3,429,000	453,076,000
Operation and maintenance of plant	244,643,000	3,700,000	248,343,000
Student grants and scholarships	<u>144,803,000</u>	<u>306,599,000</u>	<u>451,402,000</u>
Total educational and general expenditures	<u>2,880,066,000</u>	<u>360,722,000</u>	<u>3,240,788,000</u>
Auxiliary enterprises expenditures	<u>129,310,000</u>	<u>—</u>	<u>129,310,000</u>
Transfers among funds – additions (deductions):			
Mandatory transfers:			
Federal program matching	(4,587,000)	4,257,000	(330,000)
Principal and interest	(31,612,000)	—	(31,612,000)
Payments on capital lease obligations	(87,631,000)	—	(87,631,000)
Nonmandatory transfers:			
Other	<u>13,207,000</u>	<u>(46,342,000)</u>	<u>(33,135,000)</u>
Total transfers	<u>(110,623,000)</u>	<u>(42,085,000)</u>	<u>(152,708,000)</u>
Total expenditures and transfers	<u>3,119,999,000</u>	<u>402,807,000</u>	<u>3,522,806,000</u>
Excess of restricted receipts over transfers to revenues	<u>—</u>	<u>(9,899,000)</u>	<u>(9,899,000)</u>
Net increase (decrease) in fund balances	<u>\$ 151,747,000</u>	<u>(9,899,000)</u>	<u>141,848,000</u>

See accompanying notes to combined financial statements.

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

(1) Organization

California State University (the University) was established under the State of California Education Code as a public university to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. As an agency of the State of California, the University is reported as a component unit in the State of California's financial statements. Responsibility for the University is vested in the Trustees of California State University (the Trustees) who, in turn, appoint the Chancellor, the chief executive officer of the University, and the University Presidents, the chief executive officers of the respective campuses. In addition to the Office of the Chancellor, the following 22 campuses comprise the California State University at June 30, 1999:

- | | |
|--|--|
| • California State University, Bakersfield | • California State Polytechnic University, Pomona |
| • California State University, Chico | • California State University, San Bernardino |
| • California State University, Dominguez Hills | • California State University, Sacramento |
| • California State University, Fresno | • San Diego State University |
| • California State University, Fullerton | • San Francisco State University |
| • California State University, Hayward | • San Jose State University |
| • Humboldt State University | • California Polytechnic State University, San Luis Obispo |
| • California State University, Long Beach | • California State University, San Marcos |
| • California State University, Los Angeles | • Sonoma State University |
| • California Maritime Academy | • California State University, Stanislaus |
| • California State University, Monterey Bay | |
| • California State University, Northridge | |

The University provides instruction for baccalaureate, master's, doctorate and certificate programs, and operates various auxiliary enterprises such as student dormitories and parking facilities. In addition, the University administers a variety of financial aid programs which are funded primarily through state and Federal programs.

(2) Summary of Significant Accounting Policies

(a) Financial Reporting Entity

The accompanying combined financial statements present the combined financial position, changes in fund balances and current funds revenues, expenditures and other changes of the 22 campuses and the Office of the Chancellor of the California State University.

CALIFORNIA STATE UNIVERSITY

Notes to Combined Financial Statements

June 30, 1999

In addition, the accompanying combined financial statements include the accounts of 75 of the University's recognized Auxiliary Organizations. These organizations are legally separate entities that provide services primarily to the University's students. Such organizations include foundations, associated students, student unions, food service entities, book stores, and similar organizations. Foundations, whose fund balances and net assets comprise more than 77% of the discretely presented totals, carry out a variety of campus-related activities. Such activities consist primarily of administering grants from governmental and private agencies for research as well as soliciting and accepting donations, gifts and bequests for University-related use. Separate financial statements are issued for each of the recognized Auxiliary Organizations listed below and may be obtained from the individual campuses.

The discretely presented Auxiliary Organizations are as follows:

- California State University Institute
- California State University Foundation
- California State College Bakersfield Foundation
- California State University, Bakersfield Student Union
- Associated Students, California State University, Bakersfield, Inc.
- The CSU, Chico Research Foundation
- Associated Students of California State University, Chico
- The University Foundation, California State University, Chico
- Associated Students, California State University, Dominguez Hills
- California State University Dominguez Hills Foundation
- Donald P. and Katherine B. Loker University Student Union, Incorporated
- Associated Students California State University, Fresno
- The Agricultural Foundation of California State University, Fresno
- California State University, Fresno Association, Inc.
- The California State University, Fresno Athletic Corporation
- California State University, Fresno Foundation
- California State University, Fullerton, Foundation
- Associated Students California State University, Fullerton, Inc.
- University Advancement Foundation (Fullerton)
- California State University, Hayward Foundation, Inc.
- University Union of California State University, Hayward
- Associated Students, California State University, Hayward
- Associated Students of Humboldt State University
- Humboldt State University Center Board of Directors
- Humboldt State University Foundation
- Lumberjack Enterprises (Humboldt)
- California State University, Long Beach Foundation

CALIFORNIA STATE UNIVERSITY

Notes to Combined Financial Statements

June 30, 1999

- Forty-Niner Shops, Inc. (Long Beach)
- Associated Students, California State University, Long Beach
- Cal State L.A. University Auxiliary Services, Inc.
- California State Los Angeles Foundation
- Associated Students of California State University Los Angeles, Inc.
- University – Student Union Board, California State University, Los Angeles
- Associated Students of the California Maritime Academy
- California Maritime Academy Foundation, Inc.
- Foundation of California State University, Monterey Bay
- CSUMB Employee Housing, Inc.
- University Student Union of California State University, Northridge
- North Campus – University Park Development Corporation (Northridge)
- Associated Students California State University, Northridge, Inc.
- The University Corporation (Northridge)
- The California State University Northridge, Foundation
- The Cal Poly Pomona Foundation, Inc.
- Associated Students, Incorporated, California State Polytechnic University, Pomona
- Associated Students of California State University, Sacramento
- California State University, Sacramento, Trust Foundation
- California State University, Sacramento Foundation
- University Union Operation of California State University, Sacramento
- KXPR/KXJZ, Inc. (Sacramento)
- Associated Students California State University, San Bernardino
- Student Union of California State University, San Bernardino
- Foundation for the California State University, San Bernardino
- Associated Students, San Diego State University
- Aztec Shops, Ltd. (San Diego)
- San Diego State University Foundation
- Associated Students of San Francisco University
- Franciscan Shops (San Francisco)
- San Francisco State University Foundation, Inc.
- San Francisco State University Student Union
- Associated Students San Jose State University
- The Student Union of San Jose State University
- Spartan Shops, Inc. (San Jose)
- San Jose State University Foundation
- California Polytechnic State University Foundation
- Associated Students, Incorporated of California Polytechnic State University at San Luis Obispo

CALIFORNIA STATE UNIVERSITY

Notes to Combined Financial Statements

June 30, 1999

- California State University, San Marcos Foundation
- Associated Students of California State University, San Marcos
- Sonoma State Enterprises, Inc.
- Associated Students of Sonoma State University
- Sonoma Student Union Corporation
- Sonoma State University Academic Foundation Inc.
- California State University, Stanislaus Foundation
- Associated Students Incorporated of California State University Stanislaus
- University Union of California State University Stanislaus
- California State University, Stanislaus Multi-Campus Regional Center Auxiliary Services Corporation.

The Auxiliary Organizations are presented as component units of the University due to the nature and significance of their relationship with the University. The relationships are such that exclusion of these organizations from the reporting entity would render the financial statements incomplete, primarily due to their close affiliation to the University. The Auxiliary Organizations are discretely presented to allow the financial statement users to distinguish between the University and the Auxiliary Organizations. None of the Auxiliary Organizations are considered individually significant to the total discretely presented Auxiliary Organizations.

All significant intercampus transactions have been eliminated.

The accompanying financial statements also include the *California State University Risk Management Authority* and the *California State University Headquarters Authority* which are included as blended component units. These entities primarily provide services to the University in the areas of risk management and debt financing. The University is financially accountable for these organizations.

(b) Basis of Presentation

The accompanying University financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and are presented utilizing the financial statement model of the American Institute of Certified Public Accountants' Industry Audit Guide, *Audits of Colleges and Universities*.

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

The combined statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income and expenses.

(c) ***Fund Accounting***

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts are maintained in accordance with the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. This is done in accordance with regulations, restrictions, or limitations imposed by donors or sponsoring agencies outside the University, or in accordance with directives issued by the Trustees.

A fund is an accounting entity with a self-balancing set of accounts for recording assets, liabilities, fund balance, and changes in the fund balance. Separate accounts are maintained for each fund; however, funds with similar characteristics are combined into fund groups for reporting purposes. These funds are accounted for as mutually exclusive units and include the following:

- **Current Funds** – Used primarily to account for transactions that are expended in performing the primary and support objectives of the University, i.e., instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships and auxiliary enterprise activities. Current funds are segregated into separately balanced fund groups as follows:
 - **Unrestricted** – Used to account for transactions related to the University's State of California general fund appropriations, transactions of auxiliary enterprises and other substantially self-supporting activities. Auxiliary enterprises include, but are not limited to, intercollegiate athletics, parking and student housing and are separate and distinct from the recognized Auxiliary Organizations discussed in the Financial Reporting Entity section above. Assets, liabilities and fund balances of auxiliary enterprises are combined with other unrestricted current funds for reporting purposes. Revenues and expenditures of auxiliary enterprises are reported separately. Self-supporting activities primarily provide services for students, faculty and staff and are funded by fees, unrestricted gifts and other income designated for specific purposes by the Trustees.

Fund balances, even though considered unrestricted for reporting purposes, have legislative or bond indenture requirements associated with their use. These requirements limit the area of operations for which expenditures from the funds may be made, and designate fund balances to support future operations in those areas. Primary among the funds which have designated uses are those related to the operations of housing programs.
 - **Restricted** – Used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.
- **Loan Funds** – Consist primarily of funds received from the Federal and state governments for student loans. Funds under the Federal and state loan programs may be reloaned after collection, but are ultimately refundable to the Federal and state governments.

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

- **Endowment Funds** – Consist of donated funds that, as a condition of the gift, generally require the principal to be invested in perpetuity.
- **Agency Funds** – Consist of resources held by the University primarily on behalf of Auxiliary Organizations in the capacity of custodian or fiscal agent. As these funds are custodial in nature and transactions do not represent activities carried out by the University, such transactions are not included in the statement of changes in fund balances.
- **Plant Funds** – Consist primarily of property, plant, equipment, library books, bound periodicals and collections and the related debt. This fund also accounts for transactions related to the University's State of California capital outlay appropriations.

(d) Investments

University investments are generally reflected at fair value using quoted market prices when available, otherwise at cost or amortized cost. Gains and losses on the investments are included in the accompanying combined statement of changes in fund balances and net assets as investment income.

(e) Property, Plant and Equipment

Property, plant and equipment assets are stated at cost or estimated historical cost when purchased and at estimated fair value when donated. Equipment with a value of less than \$5,000 is not capitalized. Title to all campus and Chancellor's Office assets, whether purchased, constructed, or donated, is held by the State of California. No provision for depreciation has been recorded in the accompanying combined financial statements for these assets.

(f) Due to/from Other Funds

Interfund borrowings and claims that have been made between funds are generally payable within one year without interest.

(g) Deferred Revenues

Deferred revenues consist primarily of fees collected in advance for summer school as well as continuing education fees.

(h) Compensated Absences

University employees accrue annual leave at rates based on length of service and job classification.

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

(i) State Appropriations

The State of California appropriates funds to the University on an annual basis. The appropriations are, in turn, allocated among the campuses by the Office of the Chancellor. Appropriations are recognized as revenue when authorization is received and are reported in either the Current Unrestricted Fund when used to support general operations or in the Plant Fund when used for capital projects. State appropriations revert back to the State of California after five years.

(j) Income Taxes

The University is organized under the nonprofit public benefit laws of California. As such, the University is generally not subject to Federal or state income taxes. However, the University remains subject to income taxes on any net income which is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the combined financial statements taken as a whole.

The University has not undergone any recent Internal Revenue Service or state income tax audits. No taxes have been provided for any assessments that may result from such audits; since in the opinion of management, any such possible assessments would not be material to the combined financial statements taken as a whole.

(k) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the accompanying financial statements. Actual results could differ from those estimates.

(l) Total Columns (Memorandum Only)

The total columns on the accompanying financial statements are captioned (memorandum only) to indicate that they are presented only to facilitate financial analysis. Such data is not comparable to a consolidation as interfund eliminations have not been made. Therefore, amounts in these columns do not present financial position or results of operations in conformity with generally accepted accounting procedures.

(3) Cash, Cash Equivalents and Investments

The deposits of the University, included as cash and cash equivalents in the accompanying combined financial statements, are maintained at financial institutions and are fully insured or collateralized as required by state law.

State law and regulations stipulate the eligible securities for investment of surplus monies for the University. The University's investment policy authorizes excess funds to be invested in obligations of the Federal and California state governments, certificates of deposit and certain other investment instruments.

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

At June 30, 1999, the University's investments are pooled at both the campus and systemwide levels. Separate accounting is maintained as to the amounts allocable to the various campuses, funds and programs. Investments at carrying value for the University consisted of the following at June 30, 1999:

	<u>Carrying amount</u>
State of California Local Agency Investment Fund	\$ 8,493,000
Met West Total Return Fund	127,708,000
Met West Short-Term Fund	89,972,000
Collateralized mortgage obligations:	
Inverse floaters	5,193,000
Agency and private pass-through	6,377,000
Funds held at State Treasury	127,115,000
State of California Surplus Money Investment Fund	467,396,000
Other investments	<u>4,745,000</u>
	<u>\$ 836,999,000</u>

As noted above, the University's investment portfolio includes investments in collateralized mortgage obligations, as follows:

- **Inverse floaters**, which are securities in which the investor receives cash flow representing principal from underlying mortgages plus a rate of interest calculated under formulas which vary inversely to the stipulated short-term interest market rate index. Inverse floaters are guaranteed by the issuer (FNMA or FHLMC) as to return of principal and timely payment of interest calculated in accordance with the terms of the investments.
- **Agency and private pass-through securities**, which are securities in which the investor receives a pro rata share of principal and interest payments passed through from the underlying mortgages which are issued primarily by FNMA and FHLMC.

Approximately \$11,284,000 of the investments reported in the agency funds at June 30, 1999 is invested under contractual agreements on behalf of the Auxiliary Organizations of the University.

The \$127,115,000 of funds held in the State Treasury has been deposited in irrevocable trusts to provide future debt service payments related to cross-over refundings of debt. See further discussion at note 7.

For information regarding the investments of the discretely presented Auxiliary Organizations, please refer to the separately issued Auxiliary Organizations' reports.

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

(4) Receivables

Receivables at June 30, 1999, by fund, are comprised of the following:

Current Unrestricted Funds

State appropriations	\$ 170,431,000
Auxiliary Organizations	27,515,000
Student accounts, net of allowance for doubtful accounts of \$7,486,000	10,175,000
Other, net of allowance for doubtful accounts of \$2,110,000	48,196,000
	<u>\$ 256,317,000</u>

Current Restricted Funds

Government grants and contracts	\$ 15,217,000
Other, net of allowance for doubtful accounts of \$1,141,000	2,657,000
	<u>\$ 17,874,000</u>

Loan Funds

Student loans receivable, net of allowance for doubtful accounts of \$20,340,000	\$ 105,930,000
Other	11,583,000
	<u>\$ 117,513,000</u>

Endowment Funds

Other	\$ 139,000
	<u>\$ 139,000</u>

Agency Funds

Government grants and Federal Direct Loan Program, net of allowance for doubtful accounts of \$177,000	\$ 996,000
	<u>\$ 996,000</u>

Plant Funds

State appropriations for capital projects	\$ 306,976,000
Other	16,648,000
	<u>\$ 323,624,000</u>

(5) Property, Plant and Equipment

Property, plant and equipment at June 30, 1999 includes the following:

Land	\$ 100,653,000
Buildings and building improvements	3,501,536,000
Improvements, other than buildings	382,653,000
Equipment	597,255,000
Library books, bound periodicals and collections	464,910,000
Construction work in process	291,230,000
	<u>\$ 5,338,237,000</u>

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

(6) Lease Obligations

The University is obligated under various capital and operating leases. Substantially all of the capital leases are a result of the University's participation with the State of California in the State Public Works Board Lease Revenue Bond program. The University has participated in this program since 1986 in connection with the construction of campus facilities and related equipment. Current California law permits the State Public Works Board (SPWB) to authorize the sale of bonds to construct certain state facilities if there is a revenue stream that can be pledged to repay the obligations. The process is described in brief as follows:

- The University and the State of California Department of Finance agree to the construction of one or more facilities to be funded by SPWB bonds. The projects are approved as part of the University's capital outlay budget.
- The SPWB approves the sale of bonds for the project(s) and the University agrees to execute certain legal documents in connection with the financing, including a site lease to the SPWB, a construction agreement to construct the facility for the SPWB, and a Facility Lease to lease the completed facility from the SPWB for annual rental payments.
- Prior to the execution of the Facility Lease, the University receives a short-term loan from the State of California Pooled Money Investment Board to provide working capital for initial phases of the construction.
- Once construction contracts are signed, the bonds are sold by the SPWB, the construction loan is repaid, and site leases and facility leases are executed requiring semiannual lease payments, beginning upon completion of the facilities, by the Trustees that are used to pay principal and interest on the bonds.
- As part of the annual budget process, the State of California Department of Finance augments the University's operating budget to provide additional funds for the required lease payments.

Capital leases consist primarily of leases of campus facilities, but also include certain computer, energy efficiency and telecommunications equipment. Total assets related to capital leases have a carrying value of \$882,422,000 at June 30, 1999. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 2.58% to 16.4% and have terms expiring in various years through 2023.

Operating leases consist primarily of leases for the use of real property. The University's operating leases having remaining terms of more than one year expire in various fiscal years through 2023/24. The leases can be canceled if the state does not provide adequate funding. Some of these leases are with related Auxiliary Organizations for the rental of office space used in the operations of the University. Total operating lease expenditures for the year ended June 30, 1999 were approximately \$7,401,000, of which \$1,753,000 was paid to related Auxiliary Organizations.

Future minimum lease payments under capital and operating leases having remaining terms in excess of one year as of June 30, 1999 are as follows:

	Capital leases	Operating leases
Year ending June 30:		

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

2000	\$ 101,420,000	7,272,000
2001	97,625,000	4,457,000
2002	87,381,000	2,308,000
2003	82,475,000	1,297,000
2004	76,206,000	1,069,000
2005 and thereafter	<u>879,678,000</u>	<u>5,235,000</u>
Total minimum lease payments	1,324,785,000	\$ <u><u>21,638,000</u></u>
Less amount representing interest	<u>(472,612,000)</u>	
Present value of future minimum lease payments	\$ <u><u>852,173,000</u></u>	

(7) Long-Term Debt Obligations

(a) General Obligation Bond Program

The General Obligation Bond program of the State of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds which is allocated on a project-by-project basis among the California State University, the University of California and the Community Colleges. Financing provided to the University through State of California General Obligation Bonds is not allocated to the University by the State of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying combined financial statements. Total General Obligation Bond debt carried by the state related to California State University projects is approximately \$564,858,000.

(b) Revenue Bond Programs

The Revenue Bond Act of 1947 provides the Board of Trustees with the ability to issue revenue bonds to fund four specific self-supporting programs. The statute has enabled the Trustees to finance student housing, parking facilities, student unions and health centers. Outstanding bonds at June 30, 1999 consist of campus student housing, parking and student union bonds.

The housing program provides on-campus housing primarily for students. Housing is a self-supporting program deriving its revenues from fees collected for the use of the residence facilities. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The student union program provides facilities and programs aimed at creating and enhancing learning experiences outside the classroom by promoting interaction among students, faculty and staff. The student union program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. After payment of all authorized charges, the balances of these funds are available for transfer to the campus Auxiliary Organization that has contracted with the University to operate the facility. The operating

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

entity may derive additional revenue from facility subrental, recreational and commercial activities, and interest income.

The parking program provides parking facilities. The parking program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for construction, repair and maintenance, and principal and interest payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The net revenues from the housing, student union, and parking programs are pledged to retire the related revenue bonds. Amounts outstanding under these programs total \$543,983,000 at June 30, 1999.

(c) *Headquarters Building Authority*

The California State University Headquarters Authority was established to issue Lease Revenue Bonds for the initial purpose of financing the University's previous headquarters building. Subsequent lease revenue bonds were issued to refund the outstanding obligations and provide additional funding for the construction of the new Office of the Chancellor. The related lease revenue bonds outstanding at June 30, 1999 total \$30,680,000.

(d) *Deferred Maintenance Projects*

During the year ended June 30, 1996, the University entered into an agreement with the California State University Institute (the Institute), a recognized Auxiliary Organization of the University, whereby the Institute acted as a conduit to facilitate a \$43,095,000 financing arrangement for deferred maintenance projects in the University system. Amounts outstanding under this arrangement totaled \$35,220,000 at June 30, 1999.

(e) *State of California Pooled Money Investment Board*

As discussed in note 6, the University receives loans from the State of California's Pooled Money Investment Board to provide working capital for initial phases of construction. Payment of interest on the loans is provided by additional state appropriations. Loans outstanding at June 30, 1999 under this program total \$1,936,000.

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

Long-term debt obligations of the University as of June 30, 1999 consist of the following:

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Housing System Revenue Bonds:				
Series B (Chico, Fresno, Humboldt, Long Beach, Northridge, Pomona, San Diego, San Francisco, San Jose and San Luis Obispo campuses)	3%	2006/07	\$ 34,110,000	10,095,000
Series J – Northridge campus	3	2019/20	3,838,000	2,673,000
Series K – Dominguez Hills campus	3	2019/20	3,730,000	3,135,000
Series L – San Diego campus	3	2020/21	4,930,000	3,495,000
Series M – San Francisco campus	3	2020/21	580,000	420,000
Series N – Chico campus	3	2021/22	4,320,000	3,700,000
Series P – San Francisco campus	3	2021/22	1,140,000	835,000
Series Q – San Diego campus	3	2021/22	555,000	405,000
Series U – San Jose campus	3	2012/13	3,500,000	2,110,000
Series Y – Long Beach campus	3	2013/14	2,000,000	1,270,000
Series AI – 1991 Refunding Bonds (Long Beach, Los Angeles, Sonoma and San Diego campuses)	6.25 – 7.5	2014/15	35,890,000	31,230,000
Series AJ – San Francisco campus	6.3 – 8.25	2021/22		20,515,000
Series AK – Northridge campus	6.8 – 8.8	2018/19	16,300,000	14,415,000
Series AL – Sacramento campus	6.3 – 8.25	2021/22	6,400,000	5,835,000
Series AM – Sonoma campus	6.3 – 8.25	2021/22	6,300,000	5,740,000
Series AN – San Diego campus	6.3 – 8.25	2021/22	14,500,000	13,215,000
Series AP – Humboldt campus	6.3 – 8.25	2021/22	7,600,000	6,930,000
Series AQ – Northridge campus	6.3 – 8.25	2021/22	27,400,000	24,985,000
Series AR – Dominguez Hills campus	6.3 – 8.25	2021/22	8,600,000	7,845,000
Series AT – 1994 Refunding Bonds (Long Beach and Northridge campuses)	5.625 – 7.625	2018/19	16,510,000	16,115,000
Series AU – Humboldt campus	4.9 – 6.9	2016/17	4,000,000	3,790,000
Series AV – 1996 Refunding Bonds (Dominguez Hills, Fullerton, Hayward, Humboldt, Long Beach, Los Angeles, Northridge, Sacramento, San Diego, San Francisco and Sonoma campuses)	4.25 – 6.3	2021/22	138,375,000	137,835,000
Series AW – Chico campus	4.75 – 5	2017/18	4,580,000	4,580,000
Series AX – Sonoma campus	4.75 – 5.2	2030/31	29,095,000	29,095,000
			<u>396,753,000</u>	<u>350,263,000</u>

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding</u>
Student Union Revenue Bonds:				
Series A – Bakersfield campus	6 – 8%	2022/23	\$ 1,780,000	1,645,000
Series A – Chico campus	3	2006/07	1,100,000	345,000
Series B – Chico campus	4 – 12	2028/29	23,370,000	23,370,000
Series A – Dominguez Hills campus	6.25 – 8.25	2020/21	2,700,000	2,445,000
Series B – Fresno campus	4.9 – 6.9	2025/26	4,890,000	4,695,000
Series B – Fullerton campus	6.25 – 8.25	2000/01	10,000,000	370,000
Series C – Fullerton campus – Refunding Bonds	5.25 – 5.4	2020/21	9,590,000	9,345,000
Series A – Hayward campus – Refunding Bonds	5.5 – 7.5	2012/13	1,415,000	1,180,000
Series A – Humboldt campus	6	2000/01	1,850,000	290,000
Series B – Long Beach campus	4.9 – 6.9	2026/27	13,130,000	12,945,000
Series B – Los Angeles campus	5.375 – 5.6	2026/27	6,580,000	6,395,000
Series A – Northridge campus	7.4 – 7.5	2001/02	4,700,000	1,095,000
Series B – Northridge campus	6 – 8	2022/23	14,200,000	2,705,000
Series C – Northridge campus	4 – 5.63	2022/23	11,325,000	11,325,000
Series B – Sacramento campus	5.5 – 7	2021/22	900,000	825,000
Series C – Sacramento campus	5 – 7	2025/26	22,275,000	21,935,000
Series B – San Bernardino campus	6 – 8	2021/22	3,200,000	2,940,000
Series A – San Diego campus	3	2006/07	2,940,000	920,000
Series B – San Diego campus	5 – 6.125	2024/25	31,160,000	11,970,000
Series C – San Diego campus	4 – 5.63	2024/25	19,770,000	19,770,000
Series A – San Francisco campus	4.5 – 5.25	2002/03	6,500,000	1,675,000
Series B – San Francisco campus	4 – 12	2023/24	12,950,000	12,950,000
Series A – San Jose campus	3	2006/07	3,240,000	1,005,000
Series D – San Jose campus – Refunding Bonds	4.5 – 6.5	2019/20	23,070,000	21,660,000
Series A – San Luis Obispo campus	3	2007/08	3,000,000	1,030,000
Series B – San Luis Obispo campus	4 – 9.875	2025/26	4,650,000	4,650,000
Series A – Sonoma campus	7.6 – 7.7	2001/02	1,050,000	250,000
Series A – Stanislaus campus	6.1 – 6.2	2001/02	375,000	75,000
Series B – Stanislaus campus	6.3 – 8.3	2020/21	900,000	815,000
			<u>242,610,000</u>	<u>180,620,000</u>
Headquarters Building Authority –				
Lease Revenue Bonds, Series B	3.9 – 5.25	2022/23	30,680,000	30,680,000
Deferred Maintenance Projects	3.73 – 4.107	2009/10	43,095,000	35,220,000
State of California Pooled Money				
Investment Board	5.676	Not applicable	1,936,000	1,936,000
Parking Revenue Bonds – San Diego				
campus	4 – 7.5	2023/24	13,100,000	13,100,000
Other	Various	Various	<u>14,571,000</u>	<u>11,184,000</u>
			<u>\$ 742,745,000</u>	<u>623,003,000</u>

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

Long-term debt principal obligations outstanding at June 30, 1999 mature in the following fiscal years:

2000	\$ 13,996,000
2001	17,005,000
2002	21,739,000
2003	20,160,000
2004	18,483,000
2005 and thereafter	<u>529,684,000</u>
	621,067,000
State of California Pooled Money Investment Board	<u>1,936,000</u>
	<u>\$ 623,003,000</u>

(f) Debt Refundings

Prior Refundings

The University has defeased certain Student Union Revenue Bonds in prior fiscal years by placing a portion of the proceeds from the refunding bonds in irrevocable trusts with the State Treasurer to provide for all future debt service payments on the old bonds. The proceeds from the refunding bonds were used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the accompanying combined financial statements. As of June 30, 1999, the amount of defeased outstanding debt amounted to \$37,300,000.

Cross-Over Refundings

The University has also cross-over refunded certain Housing System Revenue Bonds, again, by placing the proceeds of the refunding bonds in an irrevocable trust with the State Treasurer. The net proceeds of the refunding for series AI, AJ, AK, AL, AM, AN, AP, AQ and AR are invested in U.S. Governmental Securities until the bonds are redeemed. Those securities are deposited to provide debt service payments on the old bonds at the time of redemption. Series AK is redeemable on November 1, 1999 (cross-over date), all other series are redeemable on November 1, 2000 (cross-over date). As the debt is not considered defeased until the cross-over dates are reached, the debt from bonds series AI, AJ, AK, AL, AM, AN, AP, AQ and AR has not been removed from the accompanying combined financial statements. As of June 30, 1999, the amount of debt to be repaid in connection with the cross-over refundings amounted to \$124,765,000.

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

(8) Pension Plan and Postretirement Benefits

(a) Plan Description

The University, as an agency of the State of California, contributes to the California Public Employees' Retirement System (CalPERS). The state's plan with CalPERS is an agent multiple-employer defined benefit pension plan. For the University, the plan acts as a cost-sharing multiple-employer defined benefit pension plan which provides a defined benefit pension and postretirement benefit program for substantially all eligible University employees. CalPERS functions as an investment and administrative agent for its members. The plan also provides survivor, death and disability benefits. Eligible employees are covered by the Public Employees' Medical and Hospital Care Act (PEMHCA) for medical benefits.

CalPERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the California Public Employees' Retirement System Executive Office, 400 P Street, Sacramento, California 95814.

(b) Funding Policy

University personnel are required to contribute 5% of their annual earnings in excess of \$513 per month to CalPERS. The University is required to contribute at an actuarially determined rate; the current rate is approximately 8.5% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

The University's contributions to CalPERS for the most recent three fiscal years were equal to the required contributions and were as follows:

1997	\$ 181,990,000
1998	186,363,000
1999	132,581,000

(9) Self-Insurance Claims Liability

The University and certain Auxiliary Organizations have established a public entity risk pool to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks. The liability included in the accompanying combined financial statements reflects the estimated ultimate cost of settling claims relating to events that have occurred on or before June 30, 1999. The liability includes the amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported. The liability is estimated through an actuarial calculation using individual-case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is reasonably adequate at June 30, 1999.

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

Changes in the self-insurance claims liability for the two years ended June 30, 1999 are as follows:

Liability at July 1, 1997	\$ 51,172,000
Incurred claims and changes in estimates	28,586,000
Claim payments	<u>(18,832,000)</u>
Liability at June 30, 1998	60,926,000
Incurred claims and changes in estimates	35,721,000
Claim payments	<u>(24,524,000)</u>
Liability at June 30, 1999	<u><u>\$ 72,123,000</u></u>

At June 30, 1999, approximately \$17,216,000 in assets have been set aside to fund the claims liability. The University maintains excess general liability insurance coverage provided by Schools Excess Liability Program (SELF), a Joint Powers Authority, with coverage for individual claims between \$1,000,000 and \$24,000,000 per occurrence. The University also maintains excess workers' compensation insurance provided by SELF for individual claims over \$350,000 per occurrence. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits.

(10) Commitments and Contingencies

(a) Litigation

The State of California is a defendant in multiple lawsuits involving University matters not included in the risk pool discussed in note 9. An accrual has been made for certain liabilities considered probable of assertion. Management of the University is of the opinion that the remaining liability, if any, arising from litigation will not have a material effect on the financial position of the University.

Federal grant programs are subject to review by the grantor agencies, which could result in requests for reimbursement to grantor agencies for disallowed expenditures. Management believes that it has adhered to the terms of its grants and that any disallowed expenditures resulting from such reviews would not have a material effect on the financial position of the University.

(b) Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 1999 totaled \$228,967,000. These expenditures will be funded primarily through state appropriations.

(11) Transactions with Related Entities

The California State University is an agency of the State of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations allocated to the University aggregated approximately \$2.4 billion for the year ended June 30, 1999. State appropriations receivable aggregated \$477,407,000 at June 30, 1999.

CALIFORNIA STATE UNIVERSITY
Notes to Combined Financial Statements
June 30, 1999

(12) Prior Period Adjustments

Certain adjustments have been made to the beginning fund balances/net assets of the Auxiliary Organizations to adjust for the adoption of new accounting pronouncements and the correction of errors in prior fiscal years. The restatements are summarized as follows:

	<u>Auxiliary organizations</u>
Fund balance/net assets as of June 30, 1998, as previously reported	\$ 724,676,000
Restatements	<u>(1,526,000)</u>
Fund balance/net assets as of June 30, 1998, restated	\$ <u><u>723,150,000</u></u>

Report on Required Supplementary Information

The Board of Trustees
California State University:

We have audited the combined financial statements of California State University (the University) as of and for the year ended June 30, 1999, and have issued our report thereon dated November 24, 1999. Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The year 2000 supplementary information on page 25 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the University is or will become year 2000 compliant, that the University's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the University does business are or will become year 2000 compliant.

KPMG LLP

January 5, 2000

CALIFORNIA STATE UNIVERSITY

Required Supplementary Information

Required Supplementary Information – The Effects of Year 2000

In recent years, the California State University has developed a plan to assess and correct programming issues that may arise due to the changing of computerized dates to the Year 2000. This plan has included, as an essential element, the continuous monitoring of readiness efforts and a centralized reporting mechanism to ensure timely identification and remediation of Year 2000 issues.

The Year 2000 plan has focused primarily on mission critical systems, while also assessing the effects of the Year 2000 on less critical systems. Management of the California State University believes that all mission critical systems have been assessed, remediated as necessary, validated and tested prior to December 31, 1999.

The Year 2000 plan has also emphasized the structuring of contingency plans and the creation of communication plans within the University should significant issues materialize subsequent to January 1, 2000. As a part of the plan, all campuses were required to report to the Office of the Chancellor the status of the computerized systems by January 2, 2000. Each of the campuses of the California State University conducted tests of the computerized systems on January 1 and 2, 2000, none of which affect mission critical systems.

In spite of this early success, there can be no assurance that the systems of the University are fully Year 2000 compliant. In addition, there can be no assurance that the systems or products of other companies or agencies upon which the University's systems rely have been converted timely or that such failure to convert by a vendor, customer or other agency would not have an adverse effect on the University's systems or operations.